



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 23rd day of March, 1999

SERVED: March 23, 1999

**Allocation of Chicago-London Combination
Service Frequencies**

Docket OST-99-5061

ORDER TO SHOW CAUSE

Summary

By this order we tentatively allocate 67 round-trip frequencies to United Air Lines for service in the Chicago-London market for the 1999 summer season.

In view of the need for a timely decision to permit the most effective use of our bilateral opportunities, we will afford interested parties five (5) calendar days to file objections to our tentative findings and conclusions and three (3) calendar days for any answers.

Background

Under the U.S.-U.K. Air Services Agreement, for the forthcoming summer traffic season (April 1, 1999 – October 31, 1999), American is entitled to operate 886 round-trip frequencies in the Chicago-London market, and United is entitled to operate 488 round-trip frequencies. As agreed by the United States and the United Kingdom under the consultation provisions of Annex 2 of the U.S.-U.K. agreement, a total of 67 additional round-trip summer season frequencies have been provided for use by American and United in the Chicago-London market. Since United and American filed schedules that exceeded the number of flights available, we determined, by Notice dated February 1, 1999, that it was necessary to allocate the 67 available frequencies between the carriers. To develop a complete record for this allocation, we required that the carriers file applications by February 8, 1999, and that answers be filed by February 12, 1999.

Applications and Responsive Pleadings

American requests all of the 67 additional round-trip frequencies available for allocation. American states that it will use its 886 minimum entitlement frequencies to operate four daily round-trip flights between Chicago and London (Heathrow) during the entire 1999 summer season, and one daily round-trip between Chicago and London (Gatwick) for one month of the season (June 1, 1999 – June 30, 1999) using B777, B767-200/300, and MD-11 aircraft. American states that it would use the additional 67 round-trip frequencies to extend the duration of its Chicago-London (Gatwick) service from one month to about three months (June 1, 1999 – September 5, 1999) using MD-11 aircraft for the additional flights.

United requests all of the 67 additional round-trip frequencies as well. With its minimum entitlement of 488 round-trip frequencies, United states that it will operate a double daily service for the entire 1999 summer season and a triple daily service for about two months of the season (July 1, 1999 – August 29, 1999) using B777 aircraft. United states that it would use the additional 67 round-trip frequencies to increase the period for operation of its triple daily service from about two months of the season to about four months (May 1, 1999 – September 4, 1999), also using B777 aircraft. All of United's services would operate between Chicago and London's Heathrow airport.

Each carrier filed an answer to the other's application. United argues that it should be allocated all of the 67 additional frequencies because (1) United has significantly fewer overall summer season frequencies than American, and, thus, an award to United would move the market towards competitive parity;¹ and (2) United will use larger aircraft than American, thereby offering greater public benefits per available frequency. United also argues that there is no need to award additional frequencies to American for Gatwick service since American could shift an entire daily service to Gatwick for the full season under its existing base entitlement and still operate greater frequencies than United in the Chicago-Heathrow market. United further contends that the alliance between American and British Airways constitutes yet another reason why the Department should award the 67 additional frequencies to United.

American argues that the public would benefit from new service options under its proposal to use the 67 additional frequencies to increase its Gatwick service. In this regard American contends that many travelers prefer Gatwick because they work or live near Gatwick; prefer the ground transportation between Gatwick and central London; and/or require connecting air service from Gatwick to points in the U.K., Europe, and Africa that are not available at Heathrow. American notes that United, in contrast, would offer service only to Heathrow.

¹ In this regard, United specifically cites the Department's decision last year with respect to the 1998/99 Chicago-London winter season frequencies, Orders 98-10-23 and 98-11-4.

With respect to United's claims that competitive parity should guide the Department in this case, American states that United resists such an approach when it comes to slots at Chicago's O'Hare airport, and that the Department should not decline to grant American's slot network at O'Hare competitive parity with United and, at the same time, accept United's arguments here that competitive parity requires the Department to grant United all of the 67 available summer season frequencies.²

Tentative Decision

We have tentatively decided to allocate the 67 available summer season round-trip frequencies to United.

Both American and United have presented proposals that would use all of the 67 frequencies. American would use the additional frequencies to operate a daily service to Gatwick for approximately three months (as opposed to one month) of the seven month summer season. United would use the frequencies to increase its Heathrow services to operate three daily flights for four months (as opposed to two months) of the summer season.

After reviewing both proposals, the existing services in the market, and the number of flights available, we have tentatively decided that allocation of the 67 frequencies available to United will best increase the opportunity for effective competition in the Chicago-London market and that this consideration should be decisional in this case.

It is clear from the record of this proceeding that both American and United plan to operate the majority of their services in the Chicago-London market to Heathrow. Under their respective base entitlements, American has stated that it plans to operate four daily Heathrow flights during the summer season. Similarly, United has stated that it plans to operate two daily Heathrow flights for the full season and three daily flights for two months of the season.

Given the demonstrated demand for Heathrow service and the clearly significant role that Heathrow service plays in the Chicago-London market, we tentatively conclude that the 67 frequencies would be best used to maximize competitive services at Heathrow. Under our proposed allocation, both American and United will be able to operate an array of multiple daily services in the Chicago-Heathrow market and will thereby afford consumers a broader choice of competitive services to and from that airport.

In reaching this tentative decision, we fully considered American's argument that its Gatwick proposal would offer travelers a choice of London airport services and certain beyond-London services not available at Heathrow. Indeed, this is a positive feature of American's proposal. However, as only 67 additional frequencies are available in this case, we are not persuaded that the increased service and competitive benefits of American's once-daily Gatwick service,

² In this regard American cites the Department's order regarding slots at Chicago's O'Hare airport. See Order 98-4-21.

which it proposes to operate for less than half the summer season, outweigh the benefits of additional competitive service at Heathrow, the airport through which both carriers have chosen to concentrate their Chicago-London services.³

We intend to complete this case as soon as possible and prior to the April 1 start of the 1999 summer season. Therefore, we will require that objections to our tentative decision here be filed no later than five (5) calendar days from the issue date of this order, and that answers to such objections be filed no more than three (3) calendar days thereafter. Given the expedited procedural schedule for this matter, we will authorize service of documents by facsimile and by electronic mail. Parties that are interested in such service, however, should state if they want service by email or fax and should provide interested parties with their FAX numbers and/or email addresses.

ACCORDINGLY,

1. We tentatively allocate 67 round-trip frequencies to United Air Lines, Inc., for summer season services in the Chicago-London market starting from the 1999 summer season (April 1, 1999 - October 31, 1999);
2. We require that interested parties objecting to our tentative allocations in this order file such objections with the Department, Dockets, Docket OST-99-5061, U.S. Department of Transportation, 400 Seventh Street, S.W., Washington, D.C. 20590, and serve on all parties to this proceeding within five (5) calendar days of the issue date of this order, and that any replies to such objections be filed no later than three (3) calendar days thereafter;
3. If timely and properly filed objections are filed, we will give full consideration to such pleadings before making a final allocation decision; if no objections are filed, we will deem all further procedural steps waived and will proceed immediately to a final decision making final the tentative allocation set forth in this order; and

³ As we stated in the winter season 1998/99 Chicago-London frequency allocation proceeding, we are not persuaded by United's arguments that American's proposed alliance with British Airways should affect the results of this case. American's proposed relationship with British Airways is the subject of an application currently pending before the Department and the issues in that case have not been resolved. Nor are we persuaded by American's argument that the Department's decisions regarding slot awards at O'Hare airport should affect our decision in this proceeding. We have based our tentative decision here entirely on public interest factors related to the Chicago-London market and, against this background, do not regard American's arguments concerning O'Hare slots as relevant to our decision in this case.

4. We will serve a copy of this order on American Airlines, Inc., United Air Lines, Inc., the U.S. Department of State (Office of Aviation Negotiations) and the Ambassador of the United Kingdom of Great Britain and Northern Ireland in Washington, D.C.

By:

PATRICK V. MURPHY
Deputy Assistant Secretary for
Aviation and International Affairs

(SEAL)

An electronic version of this order is available on the World Wide Web at
http://dms.dot.gov/reports/reports_aviation.asp